

## AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name : Southeastern Oakland County Water Authority	County Oakland
Audit Date June 30, 2004	Opinion Date August 25, 2004	Date Accountant Report Submitted to State: December 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5750 New King Street, Suite 100	City Troy	State MI	Zip 48098
<div>Accountant Signature Thomas E. Darling, CPA</div> 			



**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED  
JUNE 30, 2004**

**SOUTHEASTERN OAKLAND COUNTY**  
**WATER AUTHORITY**  
**Basic Financial Statements and Supplementary Information**  
**For the Year Ended June 30, 2004**

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

## INDEPENDENT AUDITORS' REPORT

August 25, 2004

Members of the Board  
Southeastern Oakland County  
Water Authority  
Oakland County, Michigan

We have audited the accompanying basic financial statements of the ***Southeastern Oakland County Water Authority***, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the ***Southeastern Oakland County Water Authority***'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Southeastern Oakland County Water Authority***, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles general accepted in the United States of America.

As described in Note III-E, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

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In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2004, on our consideration of the ***Southeastern Oakland County Water Authority's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 9 and the Schedule of Funding Progress on Page 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the ***Southeastern Oakland County Water Authority's*** basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY ROYAL OAK, MICHIGAN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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As management of the Southeastern Oakland County Water Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### **Financial Highlights**

Water sales were substantially under budget for the fiscal year ended June 30, 2004. Actual water sales were 1,355,665 thousand cubic feet compared to budgeted water sales of 1,467,570 thousand cubic feet. For the fiscal year, sales were 111,905 thousand cubic feet, or 7.6%, less than budgeted. Water sales were lower than budgeted for each month of the fiscal year. As a result, total revenues were \$1,107,685 below budget. While operating expenses were also below budget, there was insufficient revenue to cover the bond principal and interest payments. Money was removed from the net assets of the Authority in order to fully pay the bond principal and interest payments.

A significant rate increase was put into effect on July 1, 2004 in order to begin to address this debt coverage issue.

Refunding revenue bonds of \$6,980,000 were issued to refund \$6,850,000 of revenue bonds which resulted in a \$368,842 economic gain and cash savings of \$352,341 over the life of the bonds. The total expenses of the refunding are included in the current fiscal year, while the savings from the refunding accrue in future fiscal years.

### **Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial statements.** The *financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in total net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Authority is a single purpose business-type activity. As such, charges for services are intended to recover all or a significant portion of the costs to provide services. The business-type activity of the Authority includes providing water services to member communities.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Please refer to the Notes to the Financial Statements section of this report.

**Other information.** In addition to the basic financial statements, this report also presents certain *required supplementary information*. This is limited to defined benefit pension plan information and to this management discussion and analysis.

**Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$ 11,787,102 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to its member communities; consequently, these assets are *not* available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the Authority's net assets is restricted and the unrestricted net assets are in a deficit.



**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Authority Net Assets**

	<b>Business-Type Activities</b>	
	<b>2004</b>	<b>2003</b>
Current assets	\$ 1,403,973	\$ 1,942,163
Restricted assets	1,247,631	1,413,499
Other assets	357,216	142,321
Capital assets, net	17,828,776	18,152,473
Total assets	<u>20,837,596</u>	<u>21,650,456</u>
Current liabilities	2,307,017	2,492,701
Noncurrent liabilities	6,743,477	6,983,985
Total liabilities	<u>9,050,494</u>	<u>9,476,686</u>
Net assets:		
Invested in capital assets, net of related debt	11,223,776	11,302,473
Restricted assets	751,300	878,611
Unrestricted	<u>(187,974)</u>	<u>(7,314)</u>
Total net assets	<u><u>\$ 11,787,102</u></u>	<u><u>\$ 12,173,770</u></u>

Operating activities and depreciation decreased the Authority's net assets by \$135,686, accounting for 35 percent of the change in the Authority's net assets for the current year. Non-operating revenue and expense accounted for the remaining \$250,982 decrease in net assets. Key elements of this decrease are as follows:

- Operating results are very similar to the prior year. Operating expenses exceeded operating revenues by approximately two percent.
- Bond interest expenses were not covered by operating revenues.

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Authority Changes in Net Assets**

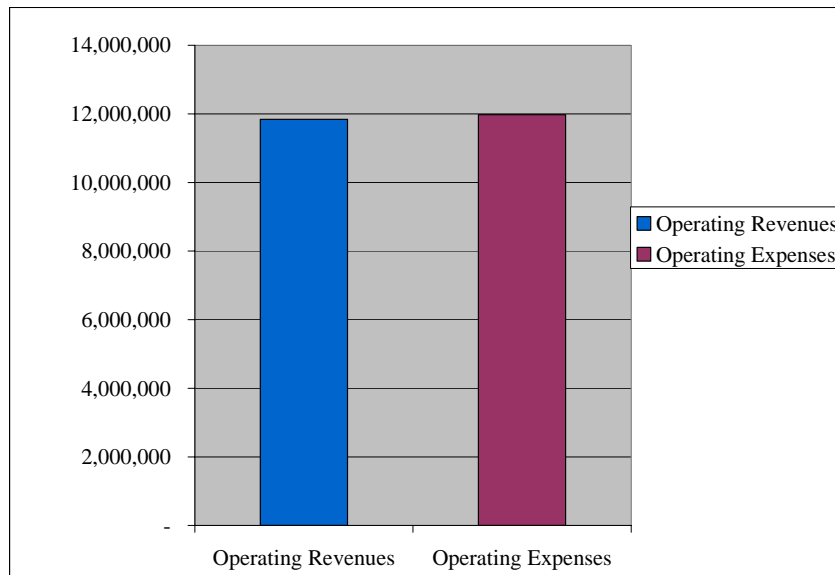
	<b>Business-Type Activities</b>	
	<b>2004</b>	<b>2003</b>
Revenue:		
Charges for services	\$ 11,747,377	\$ 11,801,389
Rental	72,007	68,894
Operating grants and contributions	65,687	146,848
Interest and other	42,810	63,316
Total revenue	<u>11,927,881</u>	<u>12,080,447</u>
Expenses:		
Operating expenses	11,492,485	11,554,702
Depreciation and amortization	482,267	572,344
Interest expense	339,797	369,775
Total expenses	<u>12,314,549</u>	<u>12,496,821</u>
Change in net assets	(386,668)	(416,374)
Net assets, beginning of year	<u>12,173,770</u>	<u>12,590,144</u>
Net assets, end of year	<u>\$ 11,787,102</u>	<u>\$ 12,173,770</u>

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

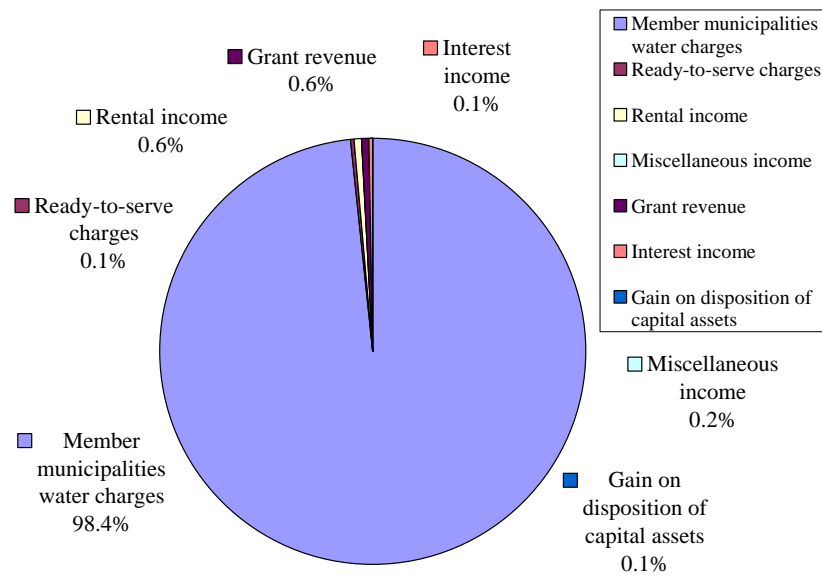
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Expenses and Program Revenues**



**Revenues by Source**



**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Capital Asset and Debt Administration**

**Capital assets.** The Authority's investment in capital assets for its activities as of June 30, 2004, amounted to \$17,828,776 (net of accumulated depreciation). This investment in capital assets includes land, buildings, pumping stations, elevated tanks, reservoirs, equipment and infrastructure. The total decrease in the Authority's investment in capital assets for the current fiscal year was 1.8 percent.

Major capital asset events during the current fiscal year included the following:

- Painting the interior and exterior of the 14 Mile Road Reservoir,
- Gare station transformer replacement,
- Purchase of a portable generator,
- Meter purchases, and
- Office equipment.

**Authority Capital Assets**  
(net of depreciation)

Land	\$ 1,026,171
Construction in progress	29,627
Pumping stations	3,539,683
Elevated tanks	1,978,997
Reservoirs	2,292,791
Scada system	1,718,187
Transmission mains and accessories	15,410,336
Meters	1,063,792
Webster office	268,254
Equipment and other assets	1,434,208
Less: accumulated depreciation	<u>(10,933,270)</u>
Total capital assets, net	<u>\$ 17,828,776</u>

Additional information on the Authority capital assets can be found in Note II-C of this report.

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Non-current liabilities**

Bond indebtedness	\$ 6,605,000
Accrued compensated absences	118,028
Arbitrage rebate payable	20,449
Total	\$ <u>6,743,477</u>

**Long-term debt.** At the end of the current fiscal year, the Authority had total debt outstanding of \$6,605,000, made up entirely of the Series 2003 water system revenue refunding bonds.

The Authority's total debt decreased by \$245,000 (3.6 percent) during the current fiscal year.

The Authority is currently rated for Baa1 by Moody's and A- by Standard & Poors for general obligation bond issuance.

Additional information on the Authority's long-term debt can be found in Note II- D of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Authority's budget for the 2004-2005 fiscal year:

- Increased employee wages cost of 3%.
- Increased health insurance cost of 15%.
- Increased property and liability and worker's compensation insurance costs of 5%.
- Water rates were increased by \$0.67 per 1,000 cubic feet. This increase reflects the recent \$0.57 increase for water purchased from the City of Detroit and a \$0.10 increase for the operations of the Authority.

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, 3910 W. Webster, Royal Oak, Michigan 48073.

***BASIC FINANCIAL  
STATEMENTS***

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 71,591
Accounts receivable	1,139,102
Grant receivable	30,382
Other receivable - related party	119,259
Other current assets	43,639

<b>Total current assets</b>	<u>1,403,973</u>
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<b>Restricted assets</b>	<u>1,247,631</u>
--------------------------	------------------

**Capital asset:**

Not being depreciated	1,055,798
Being depreciated (net)	16,772,978
<b>Total capital assets</b>	<u>17,828,776</u>

**Other assets**

Bond discount and issuance costs (net of amortization)	357,216
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<b>Total assets</b>	<u><b>20,837,596</b></u>
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**LIABILITIES**

**Current liabilities**

Vouchers payable	1,712,939
Other current liabilities	97,747

<b>Total current liabilities</b>	<u>1,810,686</u>
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<b>Current liabilities payable from restricted assets</b>	<u>496,331</u>
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**Noncurrent liabilities**

Bond indebtedness	6,605,000
Accrued compensated absence	118,028
Arbitrage rebate payable	20,449

<b>Total noncurrent liabilities</b>	<u>6,743,477</u>
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<b>Total liabilities</b>	<u><b>9,050,494</b></u>
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**NET ASSETS**

Invested in capital assets, net of related deb	11,223,776
Restricted assets	751,300
Unrestricted (deficit)	(187,974)

<b>Total net assets</b>	<u><b>\$ 11,787,102</b></u>
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The accompanying notes are an integral part of these financial statements.

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**STATEMENT OF REVENUE, EXPENSES**

**AND CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2004**

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**OPERATING REVENUES**

Member municipalities water charges	\$ 11,732,286
Ready-to-serve charges	15,091
Rental income	72,007
Miscellaneous income	<u>19,682</u>

<b>Total operating revenue</b>	<u>11,839,066</u>
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**OPERATING EXPENSES**

Source of supply	<u>9,345,307</u>
Operating, maintenance and administrative	<u>2,147,178</u>

<b>Total operating expenses</b>	<u>11,492,485</u>
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Operating income before depreciation and amortization	346,581
Depreciation and amortization	<u>482,267</u>

<b>Net operating income (loss)</b>	<u>(135,686)</u>
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**NONOPERATING REVENUES (EXPENSE)**

Grant revenue	65,687
Interest income	15,053
Bond interest expense	(339,797)
Gain on disposition of capital assets	<u>8,075</u>

<b>Total nonoperating revenue (expense)</b>	<u>(250,982)</u>
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<b>Change in net assets</b>	<b>(386,668)</b>
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<b>Net assets, beginning of year</b>	<u><b>12,173,770</b></u>
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<b>Net assets, end of year</b>	<u><u><b>\$ 11,787,102</b></u></u>
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The accompanying notes are an integral part of these financial statements.



**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 11,735,332
Payments to related party	(212,119)
Payments to suppliers	(10,462,164)
Payments to employees	(999,394)
<b>Net cash provided by operating activities</b>	<b><u>61,655</u></b>
<b>Cash flows from noncapital financing activities:</b>	
Proceeds from operating grants	<u>65,687</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases of capital assets	(141,579)
Proceeds from the sale of capital assets	17,714
Principal paid on bond indebtedness	(375,000)
Interest and fees paid on bond indebtedness	(512,822)
Proceeds from bond issuance	6,980,000
Advance refunding on bond defeasance	(6,918,500)
<b>Net cash used in capital and related financing activities</b>	<b><u>(950,187)</u></b>
<b>Cash flows from investing activities:</b>	
Interest received on investments	<u>15,053</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(807,792)</b>
Cash and cash equivalents, beginning of year	<u>2,127,014</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 1,319,222</u></b>
Statement of net assets classification of cash and cash equivalents	
Cash and cash equivalents	\$ 71,591
Restricted assets	<u>1,247,631</u>
<b>Total</b>	<b><u>\$ 1,319,222</u></b>
<b>Reconciliation of operating income to net cash provided</b>	
<b>by operating activities:</b>	
Operating loss	\$ (135,686)
Adjustments to reconcile net operating loss to	
net cash provided by operating activities	
Depreciation and amortization	482,267
Increase in accounts receivable	(106,464)
Decrease in other assets	2,730
Decrease in vouchers payable and other liabilities	(181,192)
Total adjustments	<u>197,341</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 61,655</u></b>

The accompanying notes are an integral part of these financial statements.

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## Notes To Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. The Reporting Entity

The Southeastern Oakland County Water Authority (“the Authority” or “SOCRRA”), was created in 1953 as a Michigan Public Corporation under Act Number 179 of the Michigan Public Acts of 1952. The Authority provides a water supply system primarily to eleven municipal communities in Oakland County, Michigan. The Authority is governed by a Board of Trustees, one member representing each constituent municipality. Principal funding for the Authority is derived from water charges to the member municipalities.

The Authority has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

#### B. Basis of Presentation - Government-Wide Statements

***Government-wide financial statements.*** The statements of net assets and statement of revenues, expenses and changes in net assets report information on all of the activities of the primary government (the Authority). The Authority engages in only business-type activities. Business-type activities rely to a significant extent on fees and charges for services.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

***Proprietary fund financial statements.*** The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the Authority’s enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **Notes To Financial Statements**

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The Authority reports the following major proprietary fund:

*Water.* This fund accounts for the activities of the Authority's water system.

The financial statements of the Authority follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

### **D. Assets, Liabilities and Equity**

#### ***Deposits and investments***

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

#### ***Other assets***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in the government-wide financial statements.

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **Notes To Financial Statements**

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### ***Restricted assets***

Certain resources of the Authority are set aside for debt repayment and are classified as restricted assets on the statement of net assets because their use is limited to those types of expenses.

### ***Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

The depreciation on these assets are charged as an expense against the operations on a straight-line basis over the estimated useful lives of the assets, which will range from five (5) to one hundred (100) years depending on the nature of the assets.

<u>Asset Type</u>	<u>Depreciable Life</u>
Pumping stations	10 – 50
Elevated tanks	10 – 50
Reservoirs	10 – 50
Scada system	10 – 40
Transmission mains and accessories	25 –100
Meters	10 – 30
Webster office	10 – 25
Equipment and other assets	5 – 25

### ***Compensated absences***

The Authority allows union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 960 hours (120 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year. Once an employee has accumulated not less than 480 hours (60 days) and no more than 960 hours (120 days), they receive payment at the end of the next fiscal year for

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## Notes To Financial Statements

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half of all unused sick leave credits earned during the immediately preceding fiscal year. The Authority allows non-union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 480 hours (60 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year.

## II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

### A. Deposits, Investments and Securities Lending

*Summary of Deposit and Investment Balances.* Following is a reconciliation of deposit and investment balances as of June 30, 2004:

<b>Statement of Net Assets</b>	
Cash and cash equivalents	\$ 71,591
Restricted cash and cash Equivalents	<u>1,247,631</u>
<b>Total</b>	<u><u>\$ 1,319,222</u></u>
 <b>Deposits and Investments</b>	
Bank deposits (checking accounts, savings accounts and CDs)	\$ 517,664
Investments in mutual funds and similar vehicles	801,208
Cash on hand	<u>350</u>
<b>Total</b>	<u><u>\$ 1,319,222</u></u>

*Deposits.* At year-end, the carrying amount of deposits was \$517,664. The bank balance was \$517,350. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$417,350 was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits at all times. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## Notes To Financial Statements

*Investments.* For the purposes of providing an indication of the assumed levels of risk, investments are categorized as follows: (1) insured or registered, or securities held by the government or its agent in the government's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above. As of June 30, 2004, the Authority had \$801,208 of this type of uncategorized investments.

### B. Receivables

Receivables consist of amounts due from member communities and other water sales customers. These receivables are considered 100% collectable and as such, no allowance for uncollectible accounts has been established.

### C. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated -				
Land	\$ 1,026,171	\$ -	\$ -	\$ 1,026,171
Construction in progress	24,972	4,655	-	29,627
Total capital assets not being depreciated	<u>1,051,143</u>	<u>4,655</u>	<u>-</u>	<u>1,055,798</u>
Capital assets, being depreciated:				
Pumping stations	3,473,982	65,701	-	3,539,683
Elevated tanks	1,978,997	-	-	1,978,997
Reservoirs	2,249,879	42,912	-	2,292,791
Scada system	1,718,187	-	-	1,718,187
Transmission mains and accessories	15,410,336	-	-	15,410,336
Meters	1,056,399	7,393	-	1,063,792
Webster office	258,255	9,999	-	268,254
Equipment and other assets	1,550,432	10,919	(127,143)	1,434,208
Total capital assets being depreciated	<u>27,696,467</u>	<u>136,924</u>	<u>(127,143)</u>	<u>27,706,248</u>

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## Notes To Financial Statements

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	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation	(10,595,137)	(455,576)	117,443	(10,933,270)
Total capital assets being depreciated, net	17,101,330	(318,652)	(9,700)	16,772,978
Business-type activities capital assets, net	<u>\$ 18,152,473</u>	<u>\$ (313,997)</u>	<u>\$ (9,700)</u>	<u>\$ 17,828,776</u>

### D. Long-term Debt

The government issues bonds when the government pledges income derived from the construction or acquired assets to pay debt service. Revenue bonds outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
<b>Business-type activities</b>		
Series 2003 refunding bonds	2.25%-4.25%	<u>\$ 6,605,000</u>

	<u>Principal</u>	<u>Interest and Amortization</u>
2005	\$ 475,000	\$ 261,879
2006	480,000	247,629
2007	575,000	233,229
2008	575,000	220,291
2009	600,000	205,054
2010-2012	1,875,000	495,537
2013-2015	2,025,000	255,084
	<u>\$ 6,605,000</u>	<u>\$ 1,918,703</u>

*Current year advance refundings.* During fiscal year 2004, the Authority issued \$6,980,000 in water supply system revenue refunding bonds and transferred \$6,918,500 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$6,850,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Assets. This advanced refunding was undertaken to reduce total debt service payments by \$472,341 and resulted in an economic gain of approximately \$368,842.

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2004, was as follows:

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## Notes To Financial Statements

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
Series 1991 revenue					
bonds	\$ 1,100,000	\$ -	\$ (1,100,000)	\$ -	\$ -
Series 1996 revenue					
bonds	5,750,000	-	(5,750,000)	-	-
2003 refunding bonds	-	6,980,000	(375,000)	6,605,000	475,000
Bond discount, issuance costs and deferred loss	-	(383,907)	26,691	(357,216)	(34,216)
Accrued compensated absences	113,536	4,492	-	118,028	-
Arbitrage rebate payable	20,449	-	-	20,449	-
	<u>\$ 6,983,985</u>	<u>\$ 6,600,585</u>	<u>\$ (7,198,309)</u>	<u>\$ 6,386,261</u>	<u>\$ 440,784</u>

### E. Restrictions of Net Assets

Restricted net assets on the Statement of Net Assets are legally restricted for a specific purpose as imposed by sources outside of the Authority.

The schedule of restricted net assets is as follows:

	<b>Restricted Net Assets</b>
Surplus fund	\$ 20
Construction fund	330
Improvement fund	1,331
Operation and maintenance reserve	257
Replacement reserve	50,128
Bond reserve accounts	1,195,565
Total restricted cash	<u>1,247,631</u>
Less:	
Current liabilities from restricted cash	<u>(496,331)</u>
Total restricted net assets	<u>\$ 751,300</u>



# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **Notes To Financial Statements**

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### **III. OTHER INFORMATION**

#### **A. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member of the Michigan Municipal Risk Management Authority and the Michigan Municipal League sponsored self-insurance/public entity risk pools. The Authority pays annual premiums to the respective pools for general liability, property, auto, worker's compensation and employee fidelity insurance coverage. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers Compensation Fund provide that the pools will be self sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool. Settled claims have not exceeded coverage in any of the past three years.

#### **B. Related Party Transactions**

The Authority has developed a cost sharing strategy for certain administrative salaries, operating expenses and fixed asset expenses with the Southeastern Oakland County Resource Recovery Authority (SOCRRA). In addition to these shared costs, the Authority also charges and receives an annual office rental fee from SOCRRA in the amount of \$30,000. These cost sharing arrangements resulted in the Authority charging SOCRRA \$313,133 for the year ended June 30, 2004. As of June 30, 2004, the amount of payables due from SOCRRA was \$119,259.

#### **C. Postretirement Benefits Other Than Pensions**

##### **Non-Union Employees**

The Authority also sponsors a retiree health care plan (the "Plan"). The plan is a defined contribution public retiree health care plan established effective January 1, 2002. The purpose of the plan is to accumulate funds to fully provide for the funding of health care benefits for the Authority's retirees and beneficiaries based on eligibility criteria established by the Board. Benefits under the plan are administered by I.C.M.A. and provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan. The Authority Board has the authority to establish and amend benefit provisions

At June 30, 2004 participants in the plan consisted of:

Retirees and beneficiaries currently receiving benefits	0
Active employees	<u>9</u>
Total	<u>9</u>

Employees contribute to the plan based upon eligible payroll. Contribution percentages for the year-ended June 30, 2004 was 3% resulting in contributions of \$19,913. Authority contributions

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **Notes To Financial Statements**

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are not required. A separate trust fund has been established for these assets and as such, these assets are not shown as part of the Authority's restricted assets.

### **Union Employees**

The Authority provides postretirement health care benefits to union employees and their dependents as established by Board resolution. There are currently twenty retirees and dependents whom receive these benefits. Expenses are recognized as insurance premiums become due and are netted against co-pays that are required from certain participants. During the year ended June 30, 2004 \$116,057 was recognized for postretirement health care.

### **D. Defined Benefit Pension Plan**

#### **Plan Description**

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-7677.

All full-time Authority employees are eligible to participate in MERS. Service retirement benefits have a vesting period of 10, 15, 20 and 25 years of service depending on the employees age at retirement. Payment of benefits is based on the benefit program in effect as of the date of termination of membership. Payment is based on 2.25% for union employees and 2.5% for salaried employees, of the three-year final average compensation multiplied by credited years of service. These benefits are established by resolution of the Authority and negotiation with the collective bargaining unit representing union employees.

#### **Funding Policy**

The Authority is required to contribute at an actuarially determined rate; the rate for the valuation year ending December 31, 2003 is 13.56% of annual covered payroll for union employees and 23.49% of annual covered payroll for salaried employees. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Authority or through negotiations with the collective bargaining unit representing union employees.

# SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

## Notes To Financial Statements

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### Annual Pension Cost

For the year ended June 30, 2004, the Authority's annual pension cost of \$118,189 for MERS was equal to the Authority's required and actual contributions. The required contributions were determined as part of the December 31, 2001 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investments of present and future assets of 8.0% compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years for salaried employees and 26 years for union employees.

### **Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 142,329	100%	\$ -
6/30/03	167,547	100%	-
6/30/04	118,189	100%	-

### **E. Restatements**

As of and for the year ended June 30, 2004, the Authority implemented the following Governmental Accounting Standards Board pronouncements:

### Statements

- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

### Interpretation

- No. 6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements

# **SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY**

## **Notes To Financial Statements**

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The above pronouncements are all related to the new financial reporting requirements for all state and local governments.

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Contents of the notes to the basic financial statements.

\* \* \* \* \*

***REQUIRED SUPPLEMENTARY  
INFORMATION***

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**DEFINED BENEFIT PENSION PLAN INFORMATION**

**Schedule of Funding Progress**

Actuarial Valuation Date		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$	4,274,708	\$ 5,606,826	\$ 1,332,118	76%	\$ 1,198,129	111%
12/31/02		4,232,401	6,170,873	1,938,472	69%	1,221,613	159%
12/31/03		4,367,033	6,557,028	2,189,995	67%	1,235,987	177%

## ***SUPPLEMENTARY SCHEDULES***

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF BUDGET ANALYSIS**

	<b>July 1, 2003 to June 30, 2004</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variances Favorable (Unfavorable)</b>
Revenue			
Sale of water	\$ 12,885,000	\$ 11,732,286	\$ (1,152,714)
Ready-to-serve charges	15,090	15,091	1
Grant revenue	24,000	65,687	41,687
Rental income	70,476	72,007	1,531
Interest on investments	21,000	15,053	(5,947)
Gain on disposition of fixed assets	-	8,075	8,075
Water analysis - laboratory and miscellaneous income	20,000	19,682	(318)
Total revenue	13,035,566	11,927,881	(1,107,685)
Operating expenses	12,287,716	11,492,485	795,231
Revenue in excess of operating expenses	747,850	435,396	(312,454)
Amount of bond interest and bond maturities			
Bond interest	291,712	339,797	(48,085)
Bond maturities	375,000	375,000	-
Total bond interest and bond maturities	666,712	714,797	(48,085)
Amount available (deficiency) for reserves and capital outlay	\$ 81,138	\$ (279,401)	\$ (360,539)



**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS**

	July 1, 2003 to June 30, 2004		
	Budget	Actual	Variances Favorable (Unfavorable)
Source of Supply			
Pump Station Operations			
Water purchased for resale	\$ 10,143,000	\$ 9,345,307	\$ 797,693
Meters			
Labor and supervision	23,601	31,847	(8,246)
Power and light	8,000	6,760	1,240
Cellular telephone	7,000	1,036	5,964
Maintenance	-	1,053	(1,053)
Maintenance of equipment	10,000	13,867	(3,867)
Total meters expense	48,601	54,563	(5,962)
Mains			
Labor and supervision	49,326	23,574	25,752
Maintenance	15,000	7,841	7,159
Maintenance and equipment	-	3,526	(3,526)
Miss Dig	9,000	8,203	797
Total mains expense	73,326	43,144	30,182
Webster			
Pump Station Operations			
Labor and supervision	340,760	449,979	(109,219)
Utilities	5,620	7,020	(1,400)
Power and light	33,000	51,303	(18,303)
Telephone	8,000	5,041	2,959
Maintenance of equipment	10,000	7,804	2,196
Maintenance of building	10,000	5,531	4,469
Maintenance of property and grounds	6,000	6,199	(199)
Supplies	16,000	16,375	(375)
Total Webster pump station expense	429,380	549,252	(119,872)
Reservoirs Operations			
Labor and supervision	-	827	(827)
Maintenance	1,000	799	201
Total Webster reservoirs expense	1,000	1,626	(626)

Continued....

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS**

	July 1, 2003 to June 30, 2004		
	Budget	Actual	Variances Favorable (Unfavorable)
Tank Operation			
Labor and supervision	\$ -	\$ 107	\$ (107)
Maintenance	750	385	365
Total Webster tank expense	750	492	258
Computer operations			
Labor and supervision	8,624	9,010	(386)
Utilities	3,000	1,338	1,662
Maintenance	12,000	3,622	8,378
Computer software maintenance	10,000	10,261	(261)
Scada maintenance	-	-	-
Total Webster computer expense	33,624	24,231	9,393
Purification			
Labor and supervision	33,314	35,277	(1,963)
Maintenance of equipment	500	-	500
Supplies	15,000	17,340	(2,340)
Total Webster purification expense	48,814	52,617	(3,803)
Transportation			
Labor and supervision	15,500	9,775	5,725
Maintenance and equipment	10,000	13,497	(3,497)
Fuel	14,000	16,699	(2,699)
Total Webster transportation expense	39,500	39,971	(471)
Total Webster expense	553,068	668,189	(115,121)
Shafter			
Pump Station Operations			
Labor and supervision	11,740	9,994	1,746
Utilities	3,000	3,403	(403)
Power and light	20,000	20,235	(235)
Telephone	600	608	(8)
Maintenance of equipment	5,000	1,293	3,707
Maintenance of property and grounds	5,000	6	4,994
Total Shafter expense	45,340	35,539	9,801

Continued....

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS**

July 1, 2003 to June 30, 2004			
	Budget	Actual	Variances Favorable (Unfavorable)
Lamb			
Pump Station Operations			
Labor and supervision	\$ 63,354	\$ 40,952	\$ 22,402
Utilities	3,000	2,436	564
Power and light	20,000	27,762	(7,762)
Telephone	600	369	231
Maintenance of equipment	10,000	11,151	(1,151)
Maintenance of building	4,500	205	4,295
Maintenance of property and grounds	500	-	500
Total Lamb expense	101,954	82,875	19,079
12 Mile Meter			
Meter Station Operations			
Labor and supervision	10,651	6,061	4,590
Utilities	1,000	808	192
Power and light	500	-	500
Telephone	300	311	(11)
Maintenance of equipment and supplies	2,000	226	1,774
Maintenance of building	1,000	-	1,000
Maintenance of property and grounds	500	77	423
Total 12 Mile meter expense	15,951	7,483	8,468
Gare			
Pump Station Operations			
Labor and supervision	18,067	15,909	2,158
Utilities	3,000	5,394	(2,394)
Power and light	10,000	15,054	(5,054)
Telephone	300	300	-
Maintenance of equipment	10,500	5,547	4,953
Maintenance of building	1,000	211	789
Maintenance of property and grounds	700	1,028	(328)
Total Gare pump station expense	43,567	43,443	124
Reservoirs			
Labor	-	364	(364)
Total Gare expense	43,567	43,807	(240)

Continued....

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS**

July 1, 2003 to June 30, 2004			
	Budget	Actual	Variances Favorable (Unfavorable)
Oliver			
Pump Station Operations			
Labor and supervision	\$ 7,387	\$ 21,414	\$ (14,027)
Utilities	1,000	1,631	(631)
Power and light	1,000	689	311
Telephone	300	311	(11)
Maintenance of equipment	2,000	1,041	959
Maintenance of building	1,000	590	410
Maintenance of property and grounds	500	1,504	(1,004)
Total Oliver expense	13,187	27,180	(13,993)
14 Mile/Lasher			
Meter Station Operations			
Labor and supervision	6,608	6,541	67
Power and light	1,500	181	1,319
Maintenance	-	815	(815)
Maintenance of equipment	2,000	747	1,253
Total 14 Mile/Lasher expense	10,108	8,284	1,824
Quarton/Cummings			
Meter Station Operations			
Labor and supervision	5,882	3,379	2,503
Maintenance	500	178	322
Maintenance of equipment	500	84	416
Total Quarton/Cummings expense	6,882	3,641	3,241
14 Mile Tank and Pump Station			
Pump Station Operations			
Labor and supervision	27,377	17,455	9,922
Utilities	1,000	2,426	(1,426)
Power and light	6,000	6,805	(805)
Telephone	300	308	(8)
Maintenance of equipment	4,000	1,183	2,817
Maintenance of building	1,000	202	798
Maintenance of property and grounds	1,000	6,242	(5,242)
Total 14 Mile tank and pump expense	40,677	34,621	6,056

Continued....

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS**

	<b>July 1, 2003 to June 30, 2004</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variances Favorable (Unfavorable)</b>
Reservoir Operations			
Labor and supervision	\$ -	\$ 256	\$ (256)
Maintenance	500	256	244
Total 14 Mile reservoir expense	500	512	(12)
Tank Operations			
Labor and supervision	-	291	(291)
Maintenance	1,000	385	615
Maintenance of equipment	-	218	(218)
Total 14 Mile tank expense	1,000	894	106
Total 14 Mile expense	42,177	36,027	6,150
Samoset			
Tank Operations			
Labor and supervision	5,000	5,896	(896)
Utilities	800	607	193
Power and light	300	332	(32)
Maintenance of equipment	1,000	385	615
Maintenance of property and grounds	750	691	59
Total Samoset expense	7,850	7,911	(61)
Buchanan			
Pump Station Operations			
Labor and supervision	20,681	8,389	12,292
Utilities	1,000	1,996	(996)
Power and light	1,000	202	798
Telephone	300	281	19
Maintenance of equipment	2,000	610	1,390
Maintenance of building	500	-	500
Maintenance of property and grounds	250	-	250
Total Buchanan pump expense	25,731	11,478	14,253
Reservoir Operations			
Labor	-	178	(178)
Maintenance	500	2,070	(1,570)
Total Buchanan reservoir expense	500	2,248	(1,748)
Total Buchanan expense	26,231	13,726	12,505

Continued....

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS**

	July 1, 2003 to June 30, 2004		
	Budget	Actual	Variances Favorable (Unfavorable)
Engineering			
Transportation			
Fuel	\$ -	\$ 1,849	\$ (1,849)
Administrative			
Labor and supervision	86,400	85,265	1,135
Administrative and office	1,800	50,468	(48,668)
Personnel improvement	1,800	349	1,451
Travel, conference	2,900	275	2,625
Total engineering administrative expense	92,900	136,357	(43,457)
Total engineering expense	92,900	138,206	(45,306)
Administrative and General			
Labor and supervision	260,500	216,654	43,846
Administrative and office	54,000	47,130	6,870
Personnel improvement	2,900	5,319	(2,419)
Travel, conference	1,800	2,030	(230)
Telephone - office	14,400	14,725	(325)
Legal	12,000	6,055	5,945
Audit	7,200	7,200	-
Contracted services	-	1,900	(1,900)
Social security	95,450	96,978	(1,528)
Retirement plan	174,204	118,189	56,015
Insurance			
General	76,800	75,907	893
Group	337,920	304,906	33,014
Permit and bonds	1,000	13,235	(12,235)
Grant expense	24,000	65,687	(41,687)
Paying agent	1,400	688	712
Total administrative expense	1,063,574	976,603	86,971
<b>Total Operating Expenses</b>	<b>\$ 12,287,716</b>	<b>\$ 11,492,485</b>	<b>\$ 795,231</b>

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF ACCOUNTS RECEIVABLE  
AND ANALYSIS OF CHARGES**

	<b>Accounts Receivable Balance July 1, 2003</b>	<b>Water Consumption (1M Cubic Feet)</b>	<b>Total Water Charges</b>	<b>Ready-To- Serve Charges</b>	<b>Total Billing For Year</b>	<b>Amount Due at Beginning of Year Plus Billing For Year</b>	<b>Total Paid</b>	<b>Accounts Receivable Balance June 30, 2004</b>
Municipalities								
Berkley	\$ 42,928	65,913	\$ 578,718	\$ -	\$ 578,718	\$ 621,646	\$ 567,207	\$ 54,439
Beverly Hills	42,806	61,065	536,155	-	536,155	578,961	530,124	48,837
Village of Bingham Farms	11,545	14,655	128,674	3,018	131,692	143,237	128,800	14,437
Birmingham	96,101	137,129	1,203,989	-	1,203,989	1,300,090	1,187,970	112,120
Clawson	35,717	52,381	459,900	-	459,900	495,617	455,686	39,931
Huntington Woods	20,342	28,422	249,541	-	249,541	269,883	246,341	23,542
Lathrup Village	18,471	23,906	209,892	-	209,892	228,363	209,731	18,632
Pleasant Ridge	12,110	16,640	146,102	-	146,102	158,212	134,302	23,910
Royal Oak	211,288	319,287	2,803,340	-	2,803,340	3,014,628	2,752,257	262,371
Southfield	415,918	612,143	5,374,616	12,073	5,386,689	5,802,607	5,305,092	497,515
Rackham Golf Course	2,283	1,199	10,530	-	10,530	12,813	11,594	1,219
Detroit Zoo	30,069	22,926	201,286	-	201,286	231,355	189,206	42,149
Unbilled at year end	170,204	(21,414)	(170,204)	-	(170,204)	-	-	-
Total	<u>\$ 1,109,782</u>	<u>1,334,252</u>	<u>\$ 11,732,539</u>	<u>\$ 15,091</u>	<u>\$ 11,747,630</u>	<u>\$ 12,857,412</u>	<u>\$ 11,718,310</u>	<u>\$ 1,139,102</u>

**SOUTHEASTERN OAKLAND COUNTY  
WATER AUTHORITY**

**SCHEDULE OF WORKING CAPITAL ANALYSIS**

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	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
Total current unrestricted assets	\$ 1,403,973	\$ 1,942,163
Less: Current unrestricted liabilities	<u>1,810,686</u>	<u>1,957,813</u>
Total working capital	<u>(406,713)</u>	<u>(15,650)</u>
Annual operating expenses	<u>11,492,485</u>	<u>11,554,702</u>
Percentage of working capital to annual operating expense	<u><u>-3.54%</u></u>	<u><u>-0.14%</u></u>





**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

August 25, 2004

Members of the Board  
Southeastern Oakland County  
Water Authority  
Oakland County, Michigan

We have audited the basic financial statements of *Southeastern Oakland County Water Authority* as of and for the year ended June 30, 2004, and have issued our report thereon dated August 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether *Southeastern Oakland County Water Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered *Southeastern Oakland County Water Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Directors, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.